

Message Text

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PAGE 01 STATE 310673
ORIGIN NEA-10

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FM SECSTATE WASHDC
TO AMEMBASSY JIDDA PRIORITY
INFO AMCONSUL DHAHRAN
USLO RIYADH

C O N F I D E N T I A L STATE 310673

E.O. 11652: GDS

TAGS: ETEL, SA

SUBJECT: SAUDI ARABIA COMMUNICATIONS PROJECT AND CONTINUED ITT INTEREST

1. ITT REPRESENTATIVES LED BY CORPORATE VP JOHN GUILFOYLE AND INCLUDING GEORGE ZOFFINGER CALLED ON ACTING ASSISTANT SECRETARY SOBER DECEMBER 29 TO REVIEW COMPANY'S UNSUCCESSFUL EFFORT TO WIN TELCOM CONTRACT AND TO ADVISE DEPARTMENT OF FACTORS POSSIBLY AFFECTING FUTURE BUSINESS IN SAUDI ARABIA. ITT HAS SOME HOPE THAT IT MAY YET WIN A PART OF THE COMMUNICATIONS PROJECT. ITT ALSO BELIEVES THAT COMPANY REPUTATION HAS BEEN DAMAGED IN THE COURSE OF ITS RECENT EFFORTS AND WISHES TO CORRECT THIS SITUATION WITH ASSISTANCE FROM EMBASSY JIDDA.

2. ZOFFINGER PRODUCED ITT LETTER DATED DECEMBER 9 AND ADDRESSED TO PRINCE MOHAMAD BIN ABDUL AZIZ (TEXT FOLLOWS)
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WHICH HE SAID HAD BEEN GIVEN TO PRINCE SULTAN. AMONG OTHER THINGS, LETTER STATES THAT "BY USING CONCEPTS SIMILAR TO OTHERS (MEANING BELL CANADA) AN OVERALL PRICE REDUCTION OF SR 3 BILLION CAN BE MADE." ITT BELIEVES THAT PRINCE SULTAN HAS INTERPRETED THIS PART OF LETTER TO MEAN THAT COMPANY WAS ORIGINALLY PUTTING SR 3 BILLION WORTH OF "FAT" INTO CONTRACT AND IS THEREFORE ANGRY AT ITT. COMPANY FURTHER

UNDERSTANDS

THAT PRINCE SULTAN BELIEVES LETTER IS "FRAUDULENT," I.E., THAT IT IS NOT FROM THE COMPANY. ITT WISHES TO EXPLAIN TO PRINCE SULTAN THAT (1) REDUCTION OF BID BY SR 3 BILLION WAS A RESULT OF RESTRUCTURING PART THREE USING SAME PROCEDURES OF BELL CANADA AND NOT REPEAT NOT BECAUSE ORIGINAL BID WAS OVERPRICED BY THAT AMOUNT AND (2) THAT LETTER IS INDEED GENUINE. ITT SAID IT LOOKS FORWARD TO OTHER OPPORTUNITIES IN THE SAUDI MARKET. IT REFERRED SPECIFICALLY TO SEVERAL PENDING DEFENSE CONTRACTS FOR WHICH ITT AND AFFILIATES ARE COMPETING AND WHICH WOULD LIKELY BE AFFECTED IF PRINCE SULTAN HAS NEGATIVE OPINION OF COMPANY.

3. ZOFFINGER ALSO SAID THAT COMPANY BELIEVES ISSUE OF MAJOR TELCOM CONTRACT HAS NOT REPEAT NOT BEEN SETTLED AND THAT THERE IS OUTSIDE CHANCE THAT ENTIRE PROJECT COULD BE REOPENED FOR COMPETITION. COMPANY WISHES TO RELAY TO SAG FACT THAT IT IS READY TO ONCE AGAIN COMPETE FOR ENTIRE CONTRACT OR TO OFFER GOODS AND SERVICES ON SUBCONTRACT BASIS SHOULD SAUDI DECISION ON ERICSSON, BELL CANADA, AND PHILLIPS STAND.

4. ACTION REQUESTED: DRAWING ON FOREGOING INFORMATION REQUEST YOU PASS TO PRINCE SULTAN THE FOLLOWING POINTS. (1) ITT HAS AFFIRMED THAT DECEMBER 9 LETTER IS BONA FIDE CONFIDENTIAL

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AND THE LOWER PRICE REFLECTS THE RESTRUCTURING OF THE BID USING SAME GUIDELINES AS COMPETING FIRM. PREVIOUS BID FIGURE WAS HIGHER BECAUSE DIFFERENT PROCEDURES WERE USED. ITT IS PREPARED TO EXPLAIN THIS IN DETAIL. (2) COMPANY LOOKS FORWARD TO OPPORTUNITY TO SUPPLY GOODS AND SERVICES FOR ANY PORTION OF THE PROJECT OR, SHOULD SAG DESIRE, TO COMPETE AGAIN FOR ENTIRE PACKAGE. WOULD APPRECIATE EMBASSY'S VIEW ON ITT REQUEST FOR MEETING WITH PRINCE SULTAN TO RESTATE ITS CASE. COMPANY HAS ALSO ASKED THAT AMBASSADOR WEST TAKE PART IN SUCH A MEETING. (SOBER WAS NON-COMMITTAL ON QUESTION OF PARTICIPATION BY AMBASSADOR WHICH DEPARTMENT CONSIDERS A MATTER FOR AMBASSADOR'S DISCRETION.)

FYI: ITT IS AWARE OF PRESENT DEMANDS ON EMBASSY'S TIME DUE TO PRESIDENTIAL VISIT AND HAS SUGGESTED MEETING TO TAKE PLACE AFTER JANUARY 6. END FYI.

5. IN COURSE OF DISCUSSION, ITT REPS MADE SEVERAL OTHER POINTS:

-- THEY PRAISED "EXCELLENT" WORK OF AMBASSADOR WEST AND EMBASSY STAFF AS BEING "TOTALLY AVAILABLE AND COOPERATIVE"

ON BEHALF OF U.S. BUSINESS.

-- ZOFFINGER SAID HE DID NOT REPEAT NOT BELIEVE THERE WAS ANY FAVORITISM IN SELECTION OF WINNER BUT NOTED THAT NORWEGIAN CONSULTANT ON SELECTION PROCESS HAS BEEN AWARDED DOLS 200 MILLION CONTRACT FOR ADDITIONAL WORK ON PROJECT AND THAT ANOTHER CONSULTANT, ARTHUR ANDERSON, IS NEGOTIATING FOR A MANAGEMENT ROLE IN PROJECT IMPLEMENTATION.

-- IN RESTRUCTURING PART III TO CONFORM TO BELL CANADA FORMAT, ITT CALCULATED A TAX LIABILITY OF DOLS 75 MILLION MORE THAN BELL CANADA BECAUSE OF INCREASED TAXES CAUSED BY TAX REFORM ACT OF 1976. ITT PLANS TO BRING THIS TO ATTENTION OF COMMERCE AND TREASURY. MR. SOBER POINTED OUT THAT CONFIDENTIAL

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SECRETARY BLUMENTHAL WAS WELL INFORMED ON ISSUE FOLLOWING HIS RECENT MIDDLE EAST VISIT.

-- ITT SAID THAT SAUDI ANNOUNCEMENT OF AWARD OF CONTRACT CAME 48 HOURS EARLIER THAN HAD BEEN PLANNED AND ON THE EVE OF VISIT BY SECRETARY VANCE. ZOFFINGER SAID THAT MANY PEOPLE IN JIDDA BELIEVE THAT MINISTRY OF COMMUNICATIONS WISHED TO PREEMPT ANY POSSIBLE PRESENTATION BY THE SECRETARY ON BEHALF OF COMPETING U.S. FIRMS WHEN DECISION HAD ALREADY BEEN MADE TO AWARD CONTRACT TO CONSORTIUM. HE ADDED THAT COUNCIL OF MINISTERS HAD NOT REPEAT NOT REVIEWED THE BIDS AS WAS CUSTOMARY.

-- ZOFFINGER BELIEVES SAUDIS WISH TO PROCEED WITH CONTRACT AS QUICKLY AS POSSIBLE BUT THEY WILL NOT BE ABLE TO DO SO. HE SAID IT WILL BE NECESSARY TO SET UP A PUBLIC CORPORATION SIMILAR TO SAUDIA AIRLINES WHICH WILL TAKE ADDITIONAL TIME AND MONEY.

-- ITT SAID ALL THREE BIDS WERE TECHNICALLY SOUND, BUT BELIEVES THAT PHILLIPS CONSORTIUM WILL NOT BE ABLE TO EXECUTE CONTRACT ON TIME.

6. FOLLOWING IS TEXT OF ZOFFINGER LETTER TO PRINCE MOHAMAD. QUOTE: YOUR ROYAL HIGHNESS:

THE BIDS SUBMITTED FOR THE PART 3 OPERATIONS AND MAINTENANCE PORTION OF THE ATP VARIED WIDELY FOR THE FOLLOWING REASONS:

1) THE SPECIFICATIONS FROM THE PTT ARE VAGUE AND GIVE LIMITED DETAILS OF THE TOTAL REQUIREMENTS.

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2) CERTAIN BIDDERS WERE UNWILLING TO MAKE FIXED PRICED COMMITMENTS TO THE KINGDOM.

WE WERE TOLD THAT THESE BIDS WERE "ADJUSTED" BY THE EVALUATION COMMITTEE RESULTING IN INCREASES IN ALL THREE BIDS. OF COURSE, THESE ADJUSTED INCREASES ARE NOT A COMMITMENT BY THE SUPPLIERS, NOR ARE ANY OF THESE INCREASES EXCEPT ITT'S PROTECTED BY SUPPLIER BID BONDS. WE WERE TOLD THE LME, PHILIPS, BELL CANADA BID BOND ONLY COVERS THE SAUDI RIYALS 1,600 MILLION FIXED PRICE FOR PART 3, THE WESTERN ELECTRIC BID BOND COVERS ONLY SR 4,162 MILLION FOR PART 3.

THE BIDS FOR THE O AND M VARIED SIGNIFICANTLY IN WORK SCOPE. ITT'S BID WAS THE MOST THOROUGH AND RESPONSIVE TO THE SPIRIT OF THE SPECIFICATIONS. IF NEUTRAL EXPERTS WERE TO REVIEW BOTH THE SPECIFICATIONS AND THE PROPOSALS, THEY WOULD FIND ITT HAVING A TECHNICALLY COMPLIANT BID FOR PARTS 1 AND 2, AND THE MOST RESPONSIVE BID FOR PART 3.

AT YOUR HIGHNESS' REQUEST, ITT HAS REEVALUATED ITS APPROACH TO PART 3. BY USING CONCEPTS, SIMILAR TO THE OTHERS, AN OVERALL PRICE REDUCTION, OF APPROXIMATELY SR 3,000 MILLION CAN BE MADE. THIS WILL LOWER THE OVERALL ITT PRICE TO SR 8,511 MILLION, INCLUDING THE FIXED PRICE PORTION AT SR 1,606 MILLION.

YOUR ROYAL HIGHNESS, ITT IS MOST WILLING TO MAKE A FIRM OFFER OR NEGOTIATE THIS REVISED PART 3 PRICE. THE TOTAL ITT FIXED PRICE FOR PARTS 1, 2 AND 3 OF SR 6,693 MILLION COMPARES FAVOURABLY WITH THE PHILIPS CONSORTIUM TOTAL OF SR 7,735 MILLION.

THIS PROPOSAL DEMONSTRATES ITT'S DEDICATED INTEREST IN SERVING THE TELEPHONE COMMUNICATION NEEDS OF THE KINGDOM OF SAUDI ARABIA, IN THE BEST POSSIBLE MANNER. VERY TRULY YOURS, GEORGE H. ZOFFINGER, EXECUTIVE VICE PRESIDENT AND
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DIRECTOR OF COMMUNICATIONS. UNQUOTE.
CHRISTOPHER

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NNN

Message Attributes

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Sent Date: 30-Dec-1977 12:00:00 am
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
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